

STATE OF WASHINGTON

MIKE KREIDLER
STATE INSURANCE COMMISSIONER



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OFFICE OF
INSURANCE COMMISSIONER

In the Matter of

The Financial Examination of
**NORTH COAST LIFE INSURANCE
COMPANY**

No. G 02-41

FINDINGS, CONCLUSIONS,
AND ORDER ADOPTING REPORT
OF
FINANCIAL EXAMINATION

A Domestic Insurer. _____

BACKGROUND

An examination of the financial condition of **NORTH COAST LIFE INSURANCE COMPANY** (the Company) as of December 31, 2000, was conducted by examiners of the Washington Office of the Insurance Commissioner (OIC). The Company holds a Washington certificate of authority as a stock insurer. This examination was conducted in compliance with the laws and regulations of the state of Washington and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings, instructions, and comments and recommendations was transmitted to the Company for its comments on June 28, 2002. The Company's response to the report is attached to this order only for the purpose of providing convenient review of the response.

The Commissioner or a designee has considered the report, the relevant portions of the examiners work papers, and submissions by the Company.

Subject to the right of the Company to demand a hearing pursuant to Chapters 48.04 and 34.05 RCW, the Commissioner adopts the following findings, conclusions, and order.

FINDINGS

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 2 through 27 of the report.

NORTH COAST LIFE INSURANCE COMPANY

Order Adopting Examination Report

August 27, 2002

Mailing Address: P.O. Box 40259 • Olympia, WA 98504-0259
Street Address: Lacey Financial Plaza Building, Suite 102 • 420 Golf Club Road • Lacey, WA 98503

CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of **NORTH COAST LIFE INSURANCE COMPANY** and to order the Company to take the actions described in the Instructions and Comments and Recommendations sections of the report. The Commissioner acknowledges that the Company may have implemented the Instructions and Recommendations prior to the date of this order. The Instructions and Recommendations in the report are an appropriate response to the matters found in the examination.

ORDER

The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

The Company is ordered as follows, this being the Instructions and Comments and Recommendations contained in the examination report on pages 3 – 7.

1. The Company is ordered to comply with RCW 48.12.170 requiring all future valuations of bonds amortize to callable dates. Instruction 1, Examination Report, page 3.
2. The Company is ordered to comply with RCW 48.13.460 requiring its securities to be placed or held in an authorized method. Instruction 2, Examination Report, page 3.
3. The Company is ordered to calculate its underwriting cost based on customary insurance accounting practices requiring charges or fees for services performed to be allocated on an actual cost basis and expensed when incurred in compliance with RCW 48.31B.030. The Company is further ordered to comply with RCW 48.31B.030(1)(a), requiring the Company to revise the cancellation provisions to allow cancellation without cause or monetary penalty, given reasonable notice for both parties to the Servicing Agreement. Instruction 3, Examination Report, page 4.
4. The Company is ordered to comply with RCW 48.31B.030(1)(a), regarding formal execution of a promissory note or loan agreement which is fair and reasonable as to principal owed, maturity, interest rate applied, and schedule of payments. Additionally, the books, accounts and records of each party must be so maintained as to clearly and accurately disclose the nature and details of the transaction. Instruction 4a, Examination Report, page 5.

The Company is ordered, pursuant to RCW 48.13.020(1), to book and collect all principal and interest on loan balances since inception, and to otherwise make principal and interest current, based on the executed agreement referred to above, if it chooses to classify principal and interest as an admitted asset.

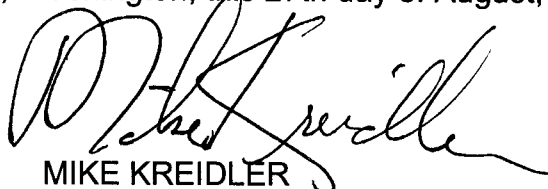
The Company is ordered, pursuant to RCW 48.05.250, to reclassify the affiliate loan as an invested asset and report it in the Annual Statement on Schedule BA and conversely in aggregate write-ins for invested assets on the Assets, Liabilities, Surplus and Other Funds schedule. In addition, it is recommended the Company report annual activity on Schedule Y. Instruction 4(b), Examination Report, page 5.

5. The Company is ordered to comply with RCW 48.12.030(5) regarding the reporting of vacation benefits unpaid using the accrual method on Exhibit 5 as general expenses. Instruction 5, Examination Report, page 5.
6. The Company is ordered to comply with RCW 48.05.250 adhering to the appropriate Annual Statement Instructions and the Accounting Practices and Procedures Manuals promulgated by the NAIC in the compilation of Schedule DM to enhance consistency in the accounting treatment accorded various kinds of insurance transactions, the valuation of assets, and related matters. Instruction 6, Examination Report, page 6.
7. The Company is ordered to include all pertinent language in the opening paragraph of its actuarial opinion, in a form substantially similar to that demonstrated in WAC 284-07-380(2)(ii). Instruction 7, Examination Report, page 6.
8. It is ordered that the Company consider obtaining access to an alternate processing center for restoring data processing capabilities in the event of a disaster. A formal contract should be written that outlines the terms for use of the alternative processing center. Comments and Recommendations 1, Examination Report, page 6.
9. It is ordered that the Company consider reviewing its investment philosophy and policies in relation to portfolio risk and policy service interest or spread needs in order to mitigate further deterioration in asset quality. It is also recommended sales of stocks and bonds with market prices below statement values should be minimized when default risk is low, in order to build the IMR reserves to more comparable levels indicated by the overall risk profile indicated by the Company's portfolio. Comments and Recommendations 2, Examination Report, page 7.

10. It is ordered that the Company consider reviewing its annual performance review policies and employment policies and treatment for the equitable application of such, to minimize the risk of future litigation for the protection of company personnel and policyholder assets in a timely manner, to remain compliant and updated with all external and internal employment practices and policies annually. Comments and Recommendations 3, Examination Report, page 7.
11. It is ordered that the Company consider reviewing and studying its relationship with RJM for continued feasibility. A study would most likely support an economic and administrative savings for retaining the mortgage loan servicing in house, as well as transferring the personnel of RJM to North Coast Life. Comments and Recommendations 4, Examination Report, page 7.

IT IS FURTHER ORDERED THAT, the Company file with the Chief Examiner, within 90 days of the date of this order, a detailed report specifying how the Company has addressed each of the requirements of this order.

ENTERED at Tumwater, Washington, this 27th day of August, 2002.


MIKE KREIDLER
Insurance Commissioner



North Coast Life

August 13, 2002

Via Facsimile and Mail
360-407-0540

Mr. James T. Odiorne, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division
Office of the Insurance Commissioner
P.O. Box 40259
Olympia, WA 98504-0259

Re: Report of Examination as of December 31, 2000

Dear Mr. Odiorne,

I am responding to your letter of June 28, 2002 which presented a draft of the 2000 Examination Report for our review of the factual material contained therein.

We appreciate the opportunity to review the factual material and have concluded that no changes are needed. We are working to quickly address all of the issues presented and anticipate having a summary of proposed Company responses and actions delivered for your review in September.

We wish to thank you and the Department of Insurance together with the entire examination team for a thorough and well considered examination process. We believe that Mr. Jordan, the in-charge examiner, maintained a solutions oriented process throughout the exam and consistently went the extra mile to fully explore all the alternatives before taking a final position.

Please do not hesitate to call if you have any questions.

Sincerely,

Gavin J Cooley, CPA
Treasurer

North Coast Life Insurance Company
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